

ADFC

Milk Supply Policy



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1) INTRODUCTION

This Milk Supply Policy sets out the terms and conditions for dairy farmers who supply milk to Australian Dairy Farmers Corporation (ADFC). This policy document may be updated and amended during the year and suppliers will be notified of any changes. For clarity, in this document we refer to all milk quality standards and factory procedures as ADFC standards, and all pricing information is referred to as ADFC pricing.

2) SHAREHOLDING

The signing of an ADFC contract and supplying milk to ADFC is conditional upon the contracted supplier(s) becoming a shareholder of ADFC.

3) MILK PRICING

The specific details of milk pricing are set out in the regional pricing letters at the beginning of each financial year and are also detailed in supply contracts.

a) Component Payment System

Payments to shareholders are made in terms of \$ per kilogram of fat and \$ per kilogram of protein - and expressed in total as \$ per kilogram of milk solids (MS). ADFC quotes milk prices at a reference solids value of 4.0% butterfat and 3.2% protein.

b) Incentives

a. Quality Payment

The table below sets out the quality payment rates. For further milk quality details please refer to section 5 and Appendix 2 of this policy

Demerit Points per month		ADFC Bonus / Penalty		Procal Bonus / Penalty	
From	To	\$/Kg Fat	\$/Kg Protein	\$/Kg Fat	\$/Kg Protein
0	0	\$0.19	\$0.39	\$0.23	\$0.34
1	1	\$0.14	\$0.27	\$0.16	\$0.24
2	4	\$0.10	\$0.19	\$0.11	\$0.17
5	9	\$0.00	\$0.00	\$0.00	\$0.00
10	14	-\$0.10	-\$0.19	-\$0.11	-\$0.17
15	17	-\$0.39	-\$0.77	-\$0.46	-\$0.68
18	23	-\$0.77	-\$1.54	-\$0.91	-\$1.36
24	29	-\$1.15	-\$2.31	-\$1.36	-\$2.05
30	60	-\$1.54	-\$3.08	-\$1.82	-\$2.73
61	& Over	No payment		No payment	

c) Stop Charges

ADFC does not have a stop charge for milk collections.

d) Milk Payments

Payments are generally made on the fifteenth day of the month following collection. If the fifteenth day of the month is a Saturday, payments will occur on the immediate preceding business day. If the fifteenth day of the month is a Sunday, payments will occur on the next business day. If the fifteenth day of the month is a public holiday or bank holiday, payments will occur on the nearest business day to the fifteenth day of the month. Milk statements will be available on the ADFC portal or (if preferred) posted before the evening of the fourteenth of each month.

4) SUPPLY CONTRACTS

a) Initial Term

The initial term of a supply contract is the 30th June for a one (1) year signed contract.

b) Ending a Contract

Contracts shall continue for the initial term and thereafter unless, and until, terminated by either party giving to the other party not less than 3 months' notice ("**Notice Period**"), which cannot expire until on, or after, the end of the initial term. After the initial term has concluded a 90 day notice can be submitted at any period. The Notice Period must expire on the last day of a month. A contracted shareholder is required to submit a letter to the ADFC Board stating their intention to conclude their current contract in 90 days. Shareholders who have provided their 90 day notice of their intent to cease supply and have been approved by the ADFC Board are uncontracted after their 90 days' notice due date (i.e. 90 days after the notice was given).

Either party may rescind an ADFC Board-approved 90 day notice within the 90 day notice period by submitting a letter to the ADFC Board requesting continuation of current contract.

If you have any questions, please contact ADFC for further details.

5) MILK QUALITY

a) Total Plate Count (TPC) and Retesting

ADFC TPC retest regime was put in place in order to recognise those shareholders with good quality TPC records. The use of a retest result is in accordance with the guidelines outlined below:

- Shareholders whose 10-day period initial TPC test is greater than ten thousand (10,000)
 - A retest will automatically occur. The purpose of which is to provide feedback results to the shareholder.

For any farms retested after the initial test in a 10-day period, ADFC will then use the lower of either the initial test result or the retest result as the official TPC 10-day period result. Any subsequent retests for that period will be treated as advisory tests. Results may be adjusted if an investigation by ADFC has identified that an entire batch of TPC samples have been compromised or if extenuating individual circumstances are relevant. ADFC can authorise advisory TPC tests to help shareholders determine the results of revised cleaning and sanitising regimes if required.

It is the shareholders' responsibility to use the SMS/email/internet (ADFC Portal) system to monitor milk quality results. Additional samples may be tested for the shareholder but will not be used to adjust existing results.

b) Somatic Cell Count (SCC)

The maximum allowable SCC level on a 10-day weighted average basis of 400,000 cells per ml brought ADFC into line with Australian Quarantine and Inspection Services (AQIS) export requirements. AQIS export requirements are

for SCC to be reported as a geometric mean (weighted), which is generally lower than a straight average. If a weighted average 10 day SCC test goes over the 400,000 limit, demerit points will apply, bearing in mind that the highest 10-day period average result is removed each month.

Where results are consistently above 400,000 SCC, shareholders will be advised by ADFC that collection may be suspended until ADFC is satisfied that a suitable mastitis control program has been put in place and SCC results have improved. During suspension, shareholders must have three consecutive representative tests less than 400,000 in order to recommence milk collection. The shareholder is responsible for making arrangements to test the milk. After recommencing milk collection, suspension from supply will recur should the monthly weighted average SCC exceed 400,000 again.

c) Temperature

Milk needs to be stored and refrigerated at 4°C. Milk should be available for collection at 4°C any time, except within the exclusion times of 6 am to 10 am and 4 pm to 8 pm (Appendix 2). Milk will not be collected above 8°C unless by express consent of ADFC and/or the relevant processor.

Farmers who consistently exceed collection temperature requirements will be monitored. Milk cooling systems must comply with the requirements of ADFC's Milk Quality Assurance program (Quality One). Any shareholder that has continuous (4 weeks) issues with temperatures in excess of 4°C must undergo an audit of their cooling system at their own cost. Shareholders who do not comply with quality assurance requirements may have their Farm Quality Assurance accreditation revoked (*after being given suitable opportunity to correct the problem*).

d) Extraneous Matter

This test is done on tankers initially and individual samples are only taken when there is a problem with the tanker. Farmers will be contacted regarding problems as they arise.

e) Freezing Point

This test is to detect added water. Nutritional problems can cause freezing points to rise, but not generally above -0.5°C. With payments for composition, there is no incentive to add water to milk. But as it does occasionally occur and is a risk to the milk quality, we do test for added water. Shareholders will be notified of issues if they arise.

f) Poor Milk Quality

Shareholders who consistently have poor quality milk (i.e. high TPCs, high SCCs, high Temperature, etc.) will be advised in writing and collection may be suspended until ADFC is satisfied that a suitable milk hygiene program has been put in place. Milk collection may cease entirely if poor milk quality persists over the course of three months.

g) Communication of Milk Quality Results

All milk test results are available within approximately 36 hours of the milk being collected. Test results are available by SMS/email/internet (**ADFC Portal**).

Shareholders are reminded that the tanker docket system may not always be available and it is recommended that they use the electronic methods for regular retrieval of milk quality and production results. The email/SMS/internet system is the most timely and efficient way of getting your results. Please contact ADFC to register on the ADFC portal system.

h) Insurance Cover

All shareholders are advised to have adequate insurance to cover any and all incidences of milk loss, contamination or damage to other shareholders' milk in the milk tanker. Should a shareholder require a letter for an insurance claim please contact ADFC.

ADFC will not be responsible for payment of milk not collected or not utilised by the processor due to:

- Milk contamination as defined by this policy

- Inhibitory substances
- Milk temperature
- Adverse weather conditions
- Where the farm has restricted access due to safety, or notified public health reasons – such as animal disease (botulism, FMD, Anthrax) etc.
- Road access – specifically lack of adequate road access due to weather conditions: Shareholders are reminded that they must have 24-hour, all-weather access and safe road access for milk tankers under all weather conditions to the dairy (see transport section 6 for further details).

i) Inhibitory Substances and Residues

ADFC strongly encourages shareholders to discuss with ADFC any suspect milk before pick up and take advantage where necessary of the preliminary testing if advised to do so. ADFC strives to remove the risk of contaminated milk entering the processing system.

Inhibitory substances can include, but are not limited to: antibiotics, pesticides, herbicides, detergents (especially quaternary ammonium compounds), blood, and colostrum. These substances, especially antibiotics, can have extreme effects on the manufacturing processes. Please refer to Section '5 i a', regarding costs associated with contaminated tankers and '5 i b', regarding 'Demerit Point' penalties.

All tankers are AB tested upon arrival at a processing facility with subsequent additional testing for individual shareholder's milk if there has been a positive SNAP result. The penalty for supplying milk not suitable for human consumption is non-payment for that collected milk volume. Please refer to Appendix 2, AB test Un-Notified) for details.

If a positive result is detected on the tanker, the milk will be segregated while further testing is conducted. Each shareholder's vat sample is then checked for the presence of inhibitory substances and the offending shareholder will be notified.

Once the offending shareholder is notified it is the shareholder's responsibility to have the next consignment of milk tested before the next tanker collection. Positive milk tanker results can be reported to the State Food Authority immediately. Where a shareholder has tested positive for antibiotics through routine testing procedures, ADFC reserve the right to have an audit conducted of the offending shareholder's Quality Assurance Program, at the shareholder's cost, to assist with improving the farm management system if repeat milk contaminations occur.

a. Costs

Please note that it is the position of this policy document that any milk suspected of being contaminated as described by this policy document, will not be accepted and therefore not collected or paid for. If unacceptable chemical, residues, antibiotics and other factors leading to the rejection of milk are found present in milk supplied, a shareholder will be subject to the terms below.

If a shareholder supplies milk which subsequently tests positive for any of the factors listed above and the processor does not use the milk for human consumption, the shareholder will not be paid for their milk. If the contaminated milk has been collected by the milk tanker, the relevant shareholder will be responsible for the cost of the milk in the tanker including the following costs:

- The total cost of all the milk in the tanker, if any, that is not the offending shareholder's milk (at the current value of the milk as determined by the relevant processor, ex GST)
- Freight costs (ex GST as determined by the relevant logistics company)
- Disposal costs (ex GST as incurred by the relevant logistics company)

If antibiotic or contaminated milk is supplied by more than one shareholder for that tanker run, milk will not be paid for and the costs will be applied on a litre pro-rata basis across those shareholders who supplied contaminated milk to that tanker.

ADFC will commence deductions from your monthly milk cheque in the next pay period, and the amount owing will be deducted over four (4) equal instalments.

If however any milk supplied by a farmer is deemed by the processor suitable for human consumption, the shareholder will be paid for the milk supplied.

b. Demerit Points

If a shareholder supplies milk that has tested positive for antibiotics or other inhibitory substances at the factory (and has not used an antibiotic test kit that tested negative) they will receive three (3) demerit points as well as being penalised with non-payment for milk and incurring associated costs as per section '5 i a'.

c. Antibiotic Test Kits

If shareholders wish to test a vat sample for possible antibiotics and should an incident arise whereby accidental vat contamination may have occurred prior to the collection, then the shareholders' own test kit may be used as a guide only. ADFC shareholders are responsible for the maintenance and operation of their own test kits. Please see section '5 i a & b' regarding penalties associated with supplying milk which has tested positive at the factory for antibiotics.

6) QUALITY ASSURANCE PROGRAM

It is the shareholder's responsibility to ensure that their Farm Quality Assurance manuals (Quality One) are compliant with relevant state authority requirements and that recording sheets and manuals are kept updated. All dairy producers are required to have an approved and audited Food Safety Program. They must comply with state legislation and ADFC requirements with regards to auditing of these systems by, or for, the authorities. Any shareholder that fails an audit (Critical Non-conformance) could be immediately suspended from supply until the cause of the failure is rectified. Shareholders who have a minor or major non-conformance entered on their audit will be given time to rectify the issue. ADFC is available for assistance in implementing an on-farm quality system. For purposes of compliance, ADFC has developed 'Quality One' QA program which ADFC shareholders are required to implement. All forms and manuals are available from ADFC.

a) Stock Feed

a. Suitability of Feed for Animal Use

Vendor declarations must be sought for all feed stuffs as part of each shareholder's On Farm Quality Assurance Program. The Vendor Declarations should identify the supplier of the feed, give a description of the stock feed and date of supply, and should guarantee that the feedstuffs are suitable for use for dairy cows in line with current dairy industry standards (which includes being free from chemical residues and ruminant animal material).

b. Genetically Modified Feed

ADFC does not permit its shareholders to use genetically engineered or genetically modified (GE/GM) feed. It is a requirement that shareholders avoid GE/GM feed for their cows and seek warranties (vendor declarations) in regard to the GE/GM status of purchased feed.

b) Animal Health

The Australian dairy industry has in place a National Dairy Industry Animal Welfare Strategy (NDIAWS) and the federal government also has an Australian Animal Welfare Strategy to ensure the best possible welfare standards for Australian animals. ADFC endorses these strategies and expects all its farmers to maintain the highest standards of animal welfare practices on their farms. The team at ADFC works closely with Dairy Australia and farmers also have access to local state authorities, local vets and Department of Primary Industry personnel to help achieve high standards on farm. ADFC's rigorous monitoring of milk quality standards and regular auditing of shareholders' farms ensures we have the best possible standards on farm.

The safety of milk for consumers is essential. Cows must be managed in a manner that prevents the introduction of hazards to the milk. If shareholders notice unusual symptoms such as dramatic shifts in production, skin lesions, sudden deaths, downer cows, etc.; they should immediately remove and isolate any suspect cows from the milking herd. It is a shareholder's responsibility to contact their veterinary officer and if necessary report any incident of

concern to ADFC. Pick up may be suspended during an investigation if recommended by either a veterinary officer or a state authority. Shareholders are reminded that they should have insurance to cover any milk lost in circumstances such as this. Milk will not be picked up from herds infected with notifiable diseases unless it is deemed safe by the relevant authorities.

Issues that may affect our ability to pick up milk (but not limited to):

- Pesticide and chemical poisoning
- Botulism, Anthrax
- Foot and mouth disease

Vaccinations for diseases such as botulism, three-day sickness, leptospirosis; etc., are recommended as best practice in order to minimise the occurrence of such diseases on farms.

In the event that a shareholder does not notify, or delays notifying, ADFC of an incident we may cease milk collection immediately and ADFC reserves the right to cease collection on a permanent basis.

c) Enzootic Bovine Leucosis (EBL) and Bovine Johnes Disease (BJD)

Shareholders must comply with individual state legislation relating to BJD and EBL testing. It is the aim that all shareholders' milk supplied to ADFC shall be EBL free (monitored free). If a breakdown occurs, shareholders shall follow the state EBL testing protocol. For herds over 200 cows, sub sampling will be used in line with state statutory guidelines. ADFC has the right to ask shareholders to supply evidence of what their current EBL status is.

7) MILK COMPONENTS

a) Component Result Variances

If a shareholder notices a significant difference in a daily milk fat and protein result, the result can be reviewed if the shareholder has contacted ADFC before the 2nd day in the new month.

- If a daily fat % is out by more than 0.4% than the average of the previous four results, then the average of the previous four results will be used.
- If a daily protein % is out by more than 0.3% than the average of the previous four results, then the average of the previous four results will be used.

8) MILK TRANSPORT

a) Sampling of Milk

Bulk milk samples will be taken using aseptic proportional milk sampling devices. Shareholders who have concerns regarding tanker drivers or sampling methods should immediately report this to ADFC.

Collection requirements include:

- Collection on a daily basis except in emergencies
- The tanker must empty the vat (however, this may not occur for logistical reasons)

b) Farm Access

In order to guarantee the safety of shareholders, drivers and animals and to facilitate the efficient collection of milk, ADFC requires all farms to have acceptable dairy access.

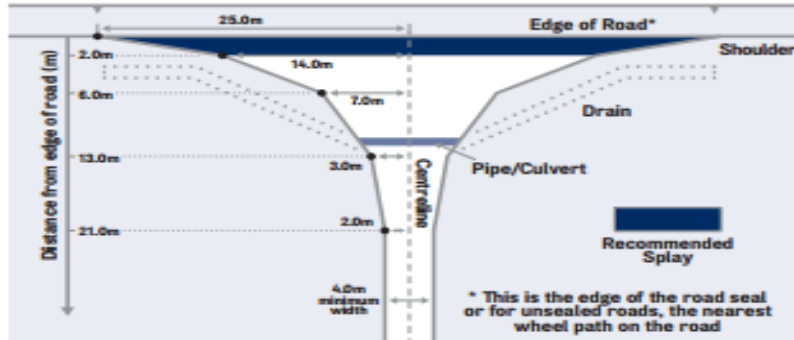
The minimum suitable standard includes:

- An all-weather access road to provide safe access for the milk tanker
- No towing of trucks will be permitted under any circumstance
- No reversing of tankers into a farm from a public road

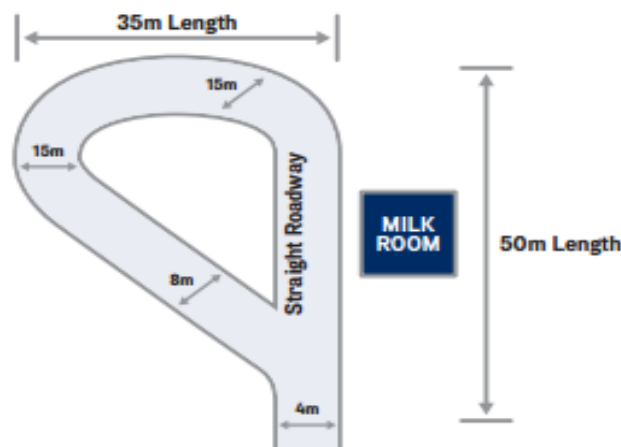
- No cows are permitted to walk on tanker access tracks, especially where the milk tanker stops to begin pumping
- This is essential for OH&S and biosecurity reasons on farm.

All shareholders are encouraged to have an entrance that allows milk tanker access from either left or right direction to their property for safe entry and exits without the need for the milk tanker to verge onto the opposite side of the road.

Figure 1 below depicts the base farm entry requirements for a 25 metre B'Double



All shareholders are also encouraged to have a milk tanker turning circle as depicted in Figure 2 below.



There are times of the year when milk production may exceed a shareholder's storage capacity even on daily collection. Shareholders may also be unfortunate enough to have a refrigeration failure that is not immediately repairable. In these types of situations, the shareholder may request one additional pickup each day. At its discretion, ADFC will attempt to assist the shareholder by providing an additional daily collection. Milk must meet temperature provisions as the additional collection is at the election of the shareholder and not ADFC, unless ADFC has agreed to assist a shareholder with a refrigeration problem.

c) Milk Vat Requirements

Shareholders are advised to have a milk vat capacity of at least 1.5 times peak daily production and must be achieved with no more than two milk vats.

d) Milk Collection Times

Milk should not be collected while milking is in progress. If for some reason milk needs to be picked up while milking is still in progress, the milk tanker driver must on all occasions seek approval from the shareholder or the milker at the dairy before beginning to pump the milk into the tanker. Where the shareholder's volume of milk exceeds the capacity and ability of ADFC milk collection arrangements, additional fees will not be charged. Also, where milk is collected more frequently than required by the shareholder for the cartage contractor or ADFC's or Processor's convenience, additional charges will not apply for the additional collections.

9) ABUSIVE LANGUAGE

It is the intent of this policy to provide a safe work place that offers all people associated with our business with an environment that is free from abusive and offensive behaviour. If ADFC believes that such behaviour has occurred (this will be at ADFC's discretion), and it is determined the offensive behaviour was caused by an ADFC shareholder, the shareholder will be suspended from milk pick up for five days or until ADFC believes a suitable atonement has been made.

10) QUESTIONS

Broader policy issues should be addressed to an ADFC director or to ADFC management. Contacts can be found in Appendix 1 of this policy.

Appendix 1 ADFC Contact List

AUSTRALIAN DAIRY FARMERS CORPORATION
Suite 222A, 757 Bourke Street, Docklands, Victoria, 3008

a) ADFC Directors

Scott Sieben (Executive Chairman)	M: 0427 567 107 E: scott.sieben@adfc.org.au
Darin Blain	M: 0429 987 393 E: darin.blain@adfc.org.au
Peter Mulheron	M: 0438 351 294 E: peter.mulheron@adfc.org.au
Rod Slattery	E: rod.slattery@adfc.org.au

b) ADFC Management

Ron Page	Operations Manager & Joint Company Secretary	M: 0418 658 305 E: ron.page@adfc.org.au
Paul Casey	Finance Manager & Joint Company Secretary	T: 03 9909 2208 E: paul.casey@adfc.org.au

c) ADFC Milk Transport Carriers

Area	Transport Carrier	Contact	Numbers
Northern Victoria	McColls Head Office Tongala	24 hours	03 5859 3333
South West Victoria	Warrnambool Cheese & Butter	24 hours	03 5563 3115

Appendix 2 Milk Quality Table, Demerit Points

Test	From	To	Demerit Points	Test Application
Total Plate Count (Units cfu/ml)	0	15000	0	Highest 10 day TPC test per month is excluded. Demerit points (if any) are applied to the 2 remain 10 day tests. There are normally 3 official 10 day tests per month. Please refer to Section 5a for further details.
	15001	24000	1	
24001	39000	2		
39001	64000	4		
64001	And over	8		
Repeat (1 month) TPC offenders over 50,000 cfu/ml may not be collected				
Somatic Cell Count (Units '000 / ml)	0	250	0	Weighted average per 10 day period is calculated. Highest average for the month is excluded. The points are applied to the remaining 2 ten day weighted average SCC. There are normally 3 weighted averages / month. Milk is not accepted from herds with a recurrent SCC of 400,000 per ml or more based on current ADFC Standards (which are based on EU requirements).
	251	300	1	
	301	350	3	
	351	400	6	
	400	And over	10	
Temperature:	Milk should be collected at 4°C except during exclusion times.			
	Milk will not be collected at greater than 8°C without prior ADFC approval.			
Temperature Exclusion times	6.00 am to 10.00am		0	There is no penalty during temperature exclusion times. Milk may not be collected >8.0C except in an emergency or for logistical purposes. A second visit fee may apply if a tanker has to return to collect milk that did not meet temperature guidelines. * No penalties apply where ADFC decides to collect milk more than normal.
	4.00 pm to 8.00 pm			
Freezing Point (Units °C)	≤-0.517		0	Per Test following a "high" tanker.
	-0.516 to -0.500		0	Warning per test following a "high" tanker.
	> -0.499		0	1st occurrence in any rolling 3 month period.
			4	2nd & further occurrences in rolling period
Repeat occurrence at higher than -0.5 °C will lead to suspension of pick up				

Test	Result	Demerit Points	Test Application
Antibiotic	Clear (<.003 ug / ml)	0	Per test (minimum one per month)
	Notified first time per year	0	Per occurrence/consignment
	Notified after this	0	Per occurrence/consignment
	Un-notified - collected	3	Per consignment. There will be no payment for milk and the member will be invoiced for costs associated with contamination
Blood In Milk	No Blood in Milk	0	Graded each consignment
Sour Milk	Clear (<0.15 acidity)	0	Graded each consignment.
Extraneous Matter Advisory test	Tanker tested first Individual Member tested if tanker > Disc 1	0	Warning if Disc 3 or higher, receive demerit points.
Extraneous Matter Penalty test (next 10 day Disc 3 or higher)	In an area where a product defect occurs – this test may be carried out immediately		
	Discs 1 & 2 (AS)	0	Continue testing until tanker tests Disk 2. Repeat test next period.
	Discs 3 (AS)	1	Repeat test next period. Individual members with a Disc 3 or higher will continue to be tested until they receive three consecutive discs <3.
	Discs 4 & 5 (AS)	5	
This follows on from the Advisory Test where a Disc 3 or more occurs. Demerit Points follow from this test only			
Quality Assurance Program	Loss of certification or accreditation	15	Immediate suspension from supply until accreditation is restored.